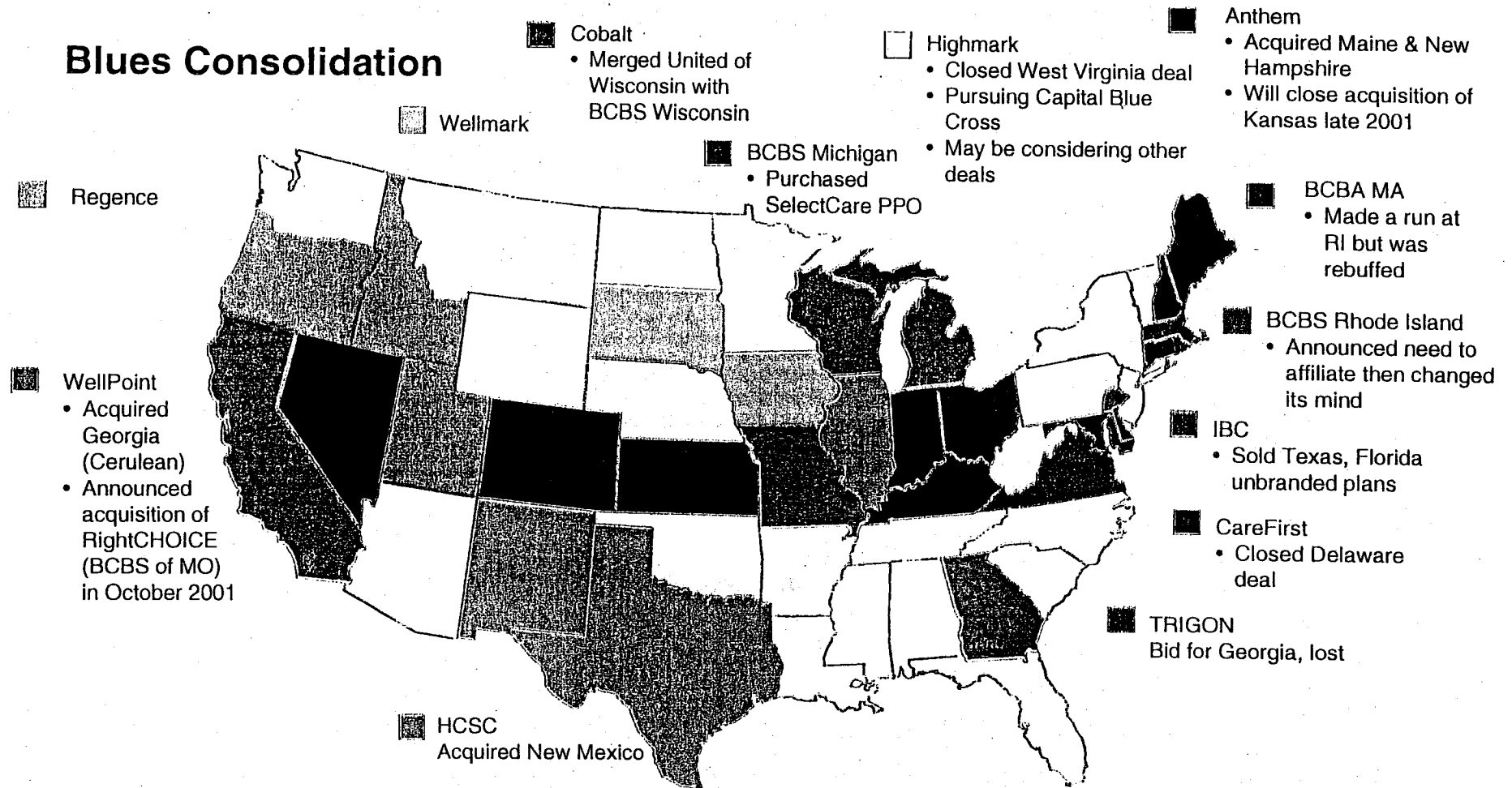


Consolidations of BCBS plans have taken place across the nation.

Blues Consolidation



OCC 002102

Increased financial strength and the flexibility to adjust to a changing market are reasons cited by health care executives that have engaged in conversion/merger activity.

Rationale for Recent Conversions/Mergers

Hospitals	Executive Leadership Viewpoint
Sharon Hospital,* CT	<ul style="list-style-type: none"> The hospital was lacking in management systems and experiencing: a declining census and utilization, a lack of adequate capital, the need for physical upgrade of the facilities, the need to update billing and collection technologies, the changing demographics, a fairly competitive environment, and other problems common among rural hospitals (<i>Dean Cain, Hospital Board Member and Health Care Investment Banker, commenting on the hospital's proposed conversion and sale to Essent Healthcare</i>)
Daniel Freeman Hospitals,* CA	<ul style="list-style-type: none"> Daniel Freeman Hospitals are in a severe financial crisis. Declining reimbursement rates from health plans and the government have led to continued losses over the past several years. Tenet brings the financial strength and hospital management expertise necessary to turn these facilities around and ensure that they continue to offer health services to the community." (<i>Cathy Ficks, Interim CEO, commenting on the hospitals' proposed conversion and sale to Tenet</i>)
Health Plans	Executive Leadership Viewpoint
WellPoint/ RightCHOICE,* CA/MO	<ul style="list-style-type: none"> We expect to share and implement best practices. For example, we have high regard for RightCHOICE's highly successful programs that have built strong relationships with physicians. (<i>Leonard Shaffer, WellPoint's Chairman and CEO, commenting on the pending merger of WellPoint with RightCHOICE</i>) Together, we'll have a stronger financial base and access to advanced technology that will provide broader health plan choices and improve communications with our members and physicians." (<i>John O'Rourke, RightCHOICE's Chairman and CEO, commenting on the pending merger of WellPoint with RightCHOICE</i>)
Cobalt Corporation,* WI	<ul style="list-style-type: none"> This combination will help give us a competitive edge in the ever-changing health care market and create a stronger presence that will benefit both customers and investors. We have long been known as a company that looks to the future, and this combination ensures that our future will be a prosperous one. Our diverse product portfolio demonstrates our commitment to technology, quality partnerships, choice and flexibility." (<i>Thomas R. Hefty, President, Chairman and Chief Executive Officer, Cobalt Corporation, commenting on the conversion from BCBS United WI & United WI Services to Cobalt Corporation</i>)

Source: Press releases from websites of the CT Attorney General's Office, Tenet Health, WellPoint Health Networks, Cobalt Corporation

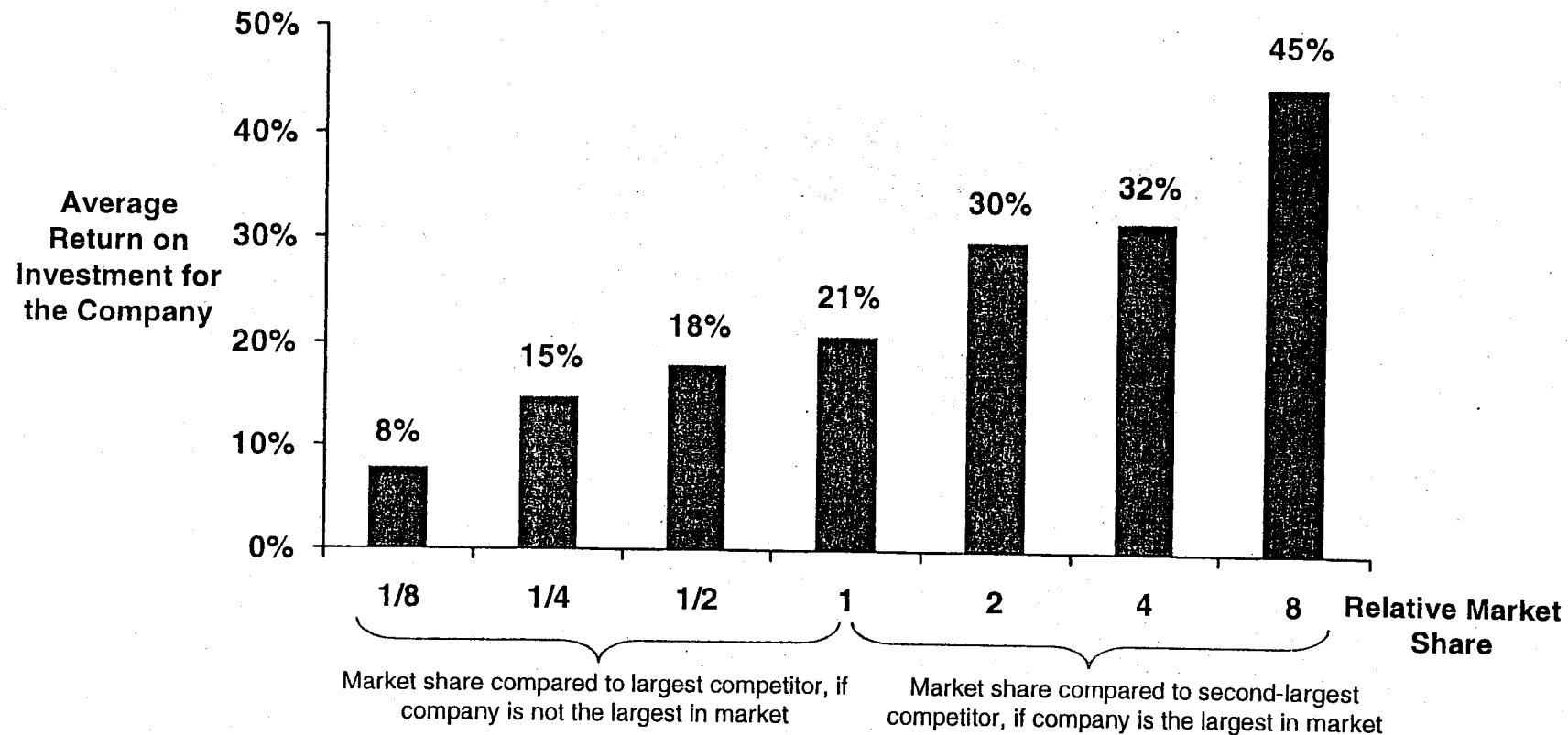
* Conversion/merger still pending

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Cross-industry evidence also suggests that high relative market share drives superior financial returns.

Return on Investment versus Relative Market Share

(relative market share = market share of the company divided by the market of the largest or next largest company in market)



Source: Accenture Analysis, PIMS (Profit Impact of Market Strategies), based on 5000 strategic business units across a variety of industries
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Members carrying BCBS Cards* **% of Total BCBSA Lives**

Plans	Members carrying BCBS Cards*	% of Total BCBSA Lives
Plans	17.3 MM	22%

☐ For-Profit
☐ Considering or pursuing conversion

Source: Health Plan public information; BCBSA Enrollment Data as of 6/30/01

If CareFirst's competitors aggressively pursue the benefits associated with increased scale, they could put themselves on a "virtuous cycle" where increased scale drives the ability to reduce costs and invest to improve sales.

A "Virtuous Cycle" for Health Plans

Gain Scale

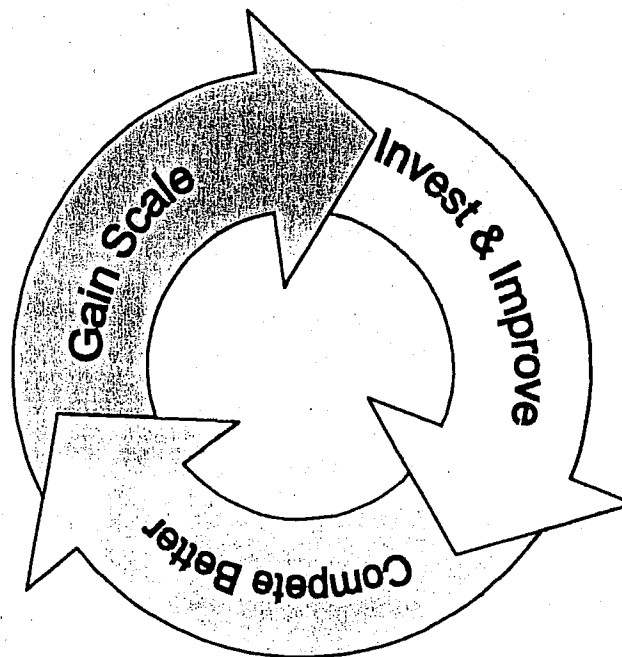
Increase member base

- Increase revenues
- Position health plan for increased investment

Compete Better

Use advantages to enhance competitive position, e.g.:

- Reduced rates, or lower rate increases, due to lower operating costs
- Improved and/or differentiated services



Invest and Improve

Exploit the advantages available through increased scale

- Reduce operating costs by aggressively pursuing economies of scale – e.g., integrating core systems and operations
- Invest more in innovative and/or differentiating services and products – e.g., eCommerce, consumer focused initiatives, improved operations